

Internal Revenue Service  
District Director

Department of the Treasury  
P.O. Box 2508  
Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

EP/EO

Employer Identification Number:

Date: FEB 5 1992

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a trust or Form 1120 if you are a corporation or an unincorporated association.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of

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[REDACTED]

attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely yours,

[REDACTED]  
District Director

Enclosures: 3

CC: [REDACTED]

Enclosure I

[REDACTED]

[REDACTED] was incorporated on [REDACTED] for the purposes of fostering and promoting the establishment and development of uniform business standards and business methods by accountants, business consultants and business planners; to encourage cooperation between and among accountants, business consultants and business planners and the professional organizations to which they belong; to promote the establishment and maintenance of fair and reasonable liability coverage programs for accountants, business consultants and business planners; to encourage the development of education programs and seminars in furtherance of fulfillment of the purposes of the Association; and in general, to engage in those activities which have the purpose of betterment of the accounting, business consulting and business planning professions.

[REDACTED] was formed at the urging of the [REDACTED], [REDACTED], and [REDACTED]. Currently [REDACTED] has [REDACTED] members. The membership primarily comes from [REDACTED], [REDACTED], and [REDACTED].

Each of these organizations is active in the establishment and development of uniform business standards and business methods by accountants, business consultants and business planners. The members of [REDACTED] provide business planning and business consulting services to members of the medical and dental professions. And, the members of [REDACTED] and [REDACTED] provide accounting services, business planning and business consulting to a wide range of businesses. The organization claims the common bond among its members is the provision of accounting, business planning and business consulting services.

One of the first tasks of [REDACTED] after its formation was to locate a company which would provide professional liability insurance to its membership. The insurance it now offers is written by [REDACTED]. The services of [REDACTED] has been retained to manage the insurance program, to administer claim services, and to communicate with [REDACTED] regarding the insurance program. For the period ending [REDACTED], approximately [REDACTED]% of the income was paid over to [REDACTED] and during the year ending [REDACTED], approximately [REDACTED]% was paid to [REDACTED]. During the period of [REDACTED], [REDACTED] paid a claim of approximately \$[REDACTED]. [REDACTED] states the claim was paid at the direction of [REDACTED] and does not foresee paying any future claims.

The administrator of [REDACTED] makes presentations in concert with the annual meetings of the [REDACTED], [REDACTED], and [REDACTED]. The topics he addresses include tax preparation errors, buy/sell agreements, discharging employees, computer software, communicating with clients, group insurance program, and statistics regarding risk management consulting.

[REDACTED]

[REDACTED] has indicated that all its activities focus on minimizing losses due to accounting errors, business practices and operation practices for both members and their clients.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, chambers of commerce, real-estate boards, boards of trade or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Revenue Ruling 56-65, 1956-1 C.B. 199 held that a local organization whose principal activity consists of furnishing particular information and specialized individual service to its members who engage in a particular industry through publications and other means to effect economies in the operation of members' businesses is performing particular services for its members. Such organization, therefore, is not entitled to exemption under section 501(c)(6) of the Code.

Revenue Ruling 68-264, 1968-1 C.B. 264 held that a nonprofit organization is not exempt from Federal income tax under section 501(c)(6) of the Code if it operates a traffic bureau for members and nonmembers as its primary activity.

Revenue Ruling 68-265, 1968-1 C.B. 265 held that a nonprofit organization that operates a credit information service as its primary activity is not exempt from Federal income tax under section 501(c)(6) of the Code.

Revenue Ruling 74-81, 1974-1 C. B. 135 held that a nonprofit organization formed to promote the business welfare and interests of persons engaged in the contracting trade and related industries and whose principal activity is to provide its members with group workmen's compensation insurance is not entitled to exemption under section 501(c)(6) of the Code.

[REDACTED]

You are similar to the organization described in Revenue Ruling 56-65 in that the presentations made by the administrator represent particular information to members. You assist members in developing uniform practices with regards to risk management. Risk management refers to the discussion, development and implementation of policies and procedures which will help members minimize the likelihood of making substantive errors or mistakes in performing services for their clients while protecting the interest of their clients

You are similar to the organization described in Revenue Ruling 74-81 in that a substantial part of your activity is devoted to the provision of risk management insurance to members. Although you have contracted with a third party to manage the insurance activities on your behalf, these activities are attributable to [REDACTED].

Revenue Ruling 56-65, involving the provisions of particular services to members, Revenue Ruling 68-264, involving the operation of a traffic bureau, Revenue Ruling 68-265, involving the operation of a credit information service, and Revenue Ruling 74-81, involving the provision of workmen's compensation for members, hold that an activity that serves as a convenience or economy to members in the operation of their businesses is a particular service of the type prohibited under section 501(c)(6) of the Code.

By providing group liability insurance for the members of [REDACTED], [REDACTED] is relieving the members of obtaining this insurance on an individual basis, resulting in the convenience in the conduct of their professions. By providing particular information to members of [REDACTED], [REDACTED] is effecting the economies in the conduct of the members consulting businesses. Therefore, the organization is rendering particular services for individual persons as distinguished from the improvement of business conditions in the accounting, business planning and business consulting professions, and it is not entitled to exemption.

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